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SUBJECT: AMBASSADOR MEETS WITH ECONOMY MINISTER ASTORI

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Classified By: Ambassador Frank Baxter for reasons 1.4(b) and (d).

11. (C) Ambassador Baxter held his first official meeting with Economy Minister Danilo Astori on December 12. The two had previously met in Washington to launch the U.S.-Uruguay Bilateral Investment Treaty (BIT). The Ambassador said he was hoping that our Trade and Investment Framework Agreement (TIFA) could be signed in January. Astori gave an impressive overview of the Uruguayan economy: 7 percent growth this year, exports up 20 percent, USD 150 million worth of software exports --roughly the same as Brazil--, investment up 30 percent and a ratio of investment to GDP of 20 percent. He also noted that over 100,000 people had been pulled out of poverty over the past two years. The Ambassador suggested that Uruguay take advantage of its educated workforce to concentrate on services. Astori agreed, pointing out that services exports would reach USD 1.5 billion this year. He also noted that the GOU was working closely with Chile to take advantage of the more than 60 FTAs that Chile has with the rest of the world through complementation of their respective production. Astori also stressed Uruguay's strong interest in continuing trade discussions with the U.S., leading to an eventual FTA. "Let's begin again," he said. End Summary.

12. (C) The Ambassador opened the meeting by telling the minister that he had enjoyed meeting him in Washington three weeks ago, and that the event to promote the BIT had been a great success. Astori asked about the current status of TIFA negotiations. The Ambassador noted that he had recently heard from Uruguayan Ambassador to the U.S. Gianelli that we were very close, and that we hoped to be able to sign the agreement in January. Astori was pleased and stressed that Uruguay is very interested in continuing trade discussions and eventually signing an FTA. "Let's begin again," he said, taking a line from the Ambassador's December 11 AmCham speech, at which he had said that "the only failure is not starting again."

13. (C) The Ambassador then asked Astori for an overview of the Uruguayan economy. Astori said that GDP growth will be 7 percent this year, with exports up 20 percent. While exports were mostly meat, dairy, wool, rice, and leather, Astori noted the growing importance of services. He pointed out that software exports will hit USD 150 million, or roughly the same as Brazil. Investment is up 30 percent, he said,

the ratio of investment to GDP is at a historically high level of 20 percent, and Uruguay has just paid off its debt with the IMF. Astori also noted a 20-year high in employment, 100,000 people pulled out of poverty in the last two years, and a decrease of 30,000 in the number of indigents.

¶4. (C) The Ambassador suggested that Uruguay could look at exports that do not require shipping, and for which Uruguay, with its educated work force, has a competitive advantage. He mentioned, for example, the outsourcing of legal and other knowledge, and anything that can be done electronically. Astori agreed and said that service exports would hit USD 1.5 billion this year. He added that more investment from the U.S. and elsewhere would stimulate logistics, ports and other services. Astori also noted great investment opportunities in forestry, mining, transportation, communication, port services, biotechnology and IT.

¶5. (C) Asked how long it takes in Uruguay to start a business, Astori replied "too long" but noted that he was working hard to rationalize the process. He stressed that Uruguay's biggest challenge now is to maintain the high growth rate. On the GOU's controversial tax reform package, he predicted that it should be finally approved this week or next in Parliament, then enter into force on July 1, 2007. He explained that the tax reform's focus was a personal income tax combined with a reduction in the VAT and a reduction in corporate taxes, but that it also contained stimuli for investors and for innovation.

¶6. (C) The Ambassador noted that Uruguay's small size could be an advantage, as were its good location, educated populace, relative security, and pleasant living. Astori agreed that Uruguay enjoys excellent security compared to its neighbors and has good human capital. What we now need, he said, is a free trade agreement with the United States. The GOU is working with Chile to find ways to take advantage of their almost 60 FTAs by "complementing production", he said, and is negotiating a treaty to eliminate double taxation. Both the Ambassador and Minister Astori concluded the meeting by agreeing to stay in close touch and to work together.

¶7. (C) Comment: Astori outlined a vibrant Uruguayan economy, with solid growth, diversifying exports and good potential in services and software. A strong proponent of free trade, Astori did not miss this opportunity to reiterate the GOU's interest in negotiating an FTA with the U.S. Post still believes, as we did a year ago (reftel - "The Way Forward"), that to negotiate an FTA with this government, from the left but moderate, pragmatic and respected, would send a much needed message to the region. The latest electoral victories by populists in Ecuador and Venezuela make such a message all the more important. End Comment.
Baxter